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March 1990 Monthly Survey

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Surveys of Consumers

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Record Awareness of Price Reductions

Index Posts
Small Improvement

The Index of Consumer Sentiment was 91.3 in the March 1990 survey, up from 89.5 in February. For the first quarter of 1990 as a whole, the Index averaged 91.3, largely unchanged from the fourth quarter average of 91.8.

Although the Index has remained relatively stable in recent months, it has been at a lower level than in the first quarter of 1989, when it averaged 95.9. Compared with a year ago, consumers now hold less favorable prospects for the general economy. Although no recession is expected during the year ahead, most consumers expect only slow economic growth.

The heightened inflationary fears sparked at the turn of the year have now cooled. Moreover, record numbers of consumers reported in the March 1990 survey the availability of lower and discounted prices on vehicles and homes. Offsetting the positive impact of price reductions, consumers have not favorably responded to the current level of interest rates.

The March improvement in sentiment was somewhat larger among high income families, but so too was the February decline. Among families with incomes of $40,000 or more, the Index of Consumer Sentiment rose to 98.8 in March from 91.8 in February, nearly regaining the January 1990 level of 103.2.

Leading Indicator
Remains Unchanged

The Index of Consumer Expectations, the component of the Index of Leading Indicators, stood at 81.3 in the March 1990 survey, identical to the February reading. Compared with a year earlier, however, the Index of Consumer Expectations was significantly lower (down 6.6 Index points). The decline from last year was largely due to less favorable short-term prospects for the general economy.

The entire March improvement was recorded in consumers' assessments of current economic conditions. The Index of Current Economic Conditions rose to 106.9 in March 1990 from 102.3 one month earlier and 104.8 one year earlier. The March gain was due to improved assessments by consumers of their current financial situation, reversing the declines caused by the freeze-induced price increases at the turn of the year.

Heightened Price Sensitivity:
Squeezes Profits, Dampens Inflation

Attitudes toward buying conditions for vehicles, homes, and household durables each modestly improved in the March 1990 survey. The recent improvement was due to more favorable perceptions of market prices. Indeed, references to lower or discounted prices for homes and vehicles were at all-time record levels in the March 1990 survey. Declines in real estate prices as well as the

continued heavy emphasis on price discounts by vehicle manufacturers led to these new records.

Consumers not only expect discounted prices to be available, but are also willing to postpone purchases in their absence. This heightened sensitivity to pricing will continue to pressure the profit margins of individual sellers, and in the aggregate, provide resistance to inflationary pressures.

In the decade of the 1970s, sellers could not only pass-through current cost increases into higher product prices, but even anticipated cost increases, without much consumer resistance. Moreover, the buy-in-advance mentality of the 1970s meant consumers' reactions tended to accelerate inflation: each new round of price increases acted to quicken the pace of sales, as consumers feared that prices would only be higher in the future.

In sharp contrast, consumers' reactions now tend to dampen inflationary trends. Price increases are now resisted by consumers rather than being accepted. This acts to slow demand and reduce inflationary pressures. It also means that the squeeze on profits is likely to continue, as the sellers' ability to pass-through cost increases will remain limited.

Reports of Lower Home Prices Reach Record Level

Favorable home buying attitudes were held by 66 percent of all families in the March 1990 survey, up from 62 percent one month earlier and 60 percent one year earlier. Although the March reading represents a favorable assessment of home buying conditions, the proportion holding favorable home buying attitudes is still well below the cyclical peak of 86 percent recorded in 1986.

The availability of lower home prices was reported by 29 percent of all families in the March 1990 survey, up from 25 percent in February and 17 percent in March 1990. At 29 percent, the March 1990 reading was the highest proportion recorded in forty years. Gone are the days when the only favorable thing consumers could say about current home prices was that they would be even higher in the future. These buy-in-advance price rationales, that dominated consumers attitudes in the 1970s, have now all but vanished.

References to the availability of lower mortgage interest rates were made by 28 percent of all families in the March 1990 survey, up from 25 percent one month earlier and 17 percent one year earlier. Acting to offset this improvement, fewer consumers mentioned the advisability of borrowing-in-advance of rising mortgage rates in the March 1990 survey (6 percent) than one month earlier (8 percent) or one year earlier (19 percent).

Although consumers' assessments of the level of mortgage interest rates are now positive, it is only by a small margin (28 percent mentioned low rates versus 18 percent that complained about high mortgage rates). In contrast, the peak in favorable home buying attitudes reached earlier in the expansion was dominated by very favorable views of mortgage rates. At the 1986 peak, 83 percent of all families referred to the availability of low mortgage rates compared with just 4 percent that complained about high mortgage rates.

Reports of Vehicle Price Discounts Remain at Record Levels

Favorable attitudes toward buying conditions for vehicles were held by 65 percent of all families in the March 1990 survey, up from 63 percent one month earlier and 61 percent one year earlier. Despite this small improvement, the overall trend in vehicle buying attitudes has remained relatively flat throughout the past year.

To a larger extent than at any time in the past, favorable vehicle attitudes have been based on the availability of price discounts. For the third consecutive month, 48 percent of all families in the March 1990 survey referred to the price discounts offered by vehicle manufacturers when asked to explain their views. This represents the highest level ever recorded in the history of these surveys.

In contrast to these very favorable price perceptions, the level of interest rates played a very small

positive role. Among all families in the March 1990 survey, just 11 percent mentioned the availability of lower interest rates on vehicle loans. Apparently, the discounted interest rates offered by vehicle manufacturers have not been low enough to attract much consumer attention. As with the housing market, it was the very favorable perceptions of interest rates in 1986 that accounted for the peak levels in vehicle buying attitudes.

Household Durables

Favorable attitudes toward buying conditions for furniture, appliances and home electronics were held by 76 percent of all families in the March 1990 survey, up from 74 percent one month earlier and 72 percent one year earlier. These positive assessments continue to be dominated by references to low and discounted prices. In the March 1990 survey, 36 percent made favorable references to current prices, just ahead of the 35 percent recorded in February and the 33 percent recorded in March 1989.

Personal Finances Regain Winter Losses

Consumers' evaluations of their current financial situation rebounded in the March survey, reflecting the temporary impact from the price increases caused by the unusually cold winter.

Among all families, 43 percent reported that their financial situation had improved during the past year, up from 38 percent in February. Increases in incomes were reported by 32 percent of all households in the March 1990 survey, up from 30 percent in both the month earlier and year earlier surveys. Just 11 percent of all families reported income declines in the March 1990 survey, down from 16 percent one month earlier, and 13 percent one year earlier.

American families remained upbeat about the outlook for their finances. An improved financial situation was expected by 37 percent of all families in the March 1990 survey, between the 35 percent one month earlier and the 40 percent recorded one year earlier. Rather than worsening finances, families were most likely to expect their net financial situation to remain unchanged, considering changes in both incomes and prices. Just 12 percent of all families in the March 1990 survey expected their financial situation to worsen during the year ahead.

Inflation Expectations Ease

Consumers expected an annual inflation rate of 4.9% in the March 1990 survey, down from 5.4% at the start of the year and 5.6% in March of 1989. The easing of concerns with inflation since the start of the year reflects that consumers now perceive the impact of the winter weather on prices to be only temporary.

Stagnant Economy: Last Year and Next

The sluggish growth in the national economy has been clearly reflected in consumers' assessments. The proportion of families that thought the national economy had improved during the past year stood at 36 percent in the March 1990 survey, unchanged from February, but significantly below the 47 percent recorded in March of 1989. Indeed, more families in the March 1990 survey thought that the economy had worsened rather than improved during the past year by a margin of 42 to 36 percent.

Moreover, most families expected the same sluggish performance of the national economy to persist during the year ahead (58 percent). Many fewer expected the economy's performance to either improve (22 percent) or worsen (18 percent) in the March 1990 survey.

Although the economy is expected to remain sluggish, no recession is expected. Given the length of the current expansion, most consumers considered the prospect for an even longer expansion favorably--but the margin of favorable opinion has diminished during the past year. Good times financially in the economy as a whole were expected by 48 percent of all families in the March

1990 survey. Although this was a slight improvement from the 46 percent recorded one month earlier, it remained below the year earlier figure of 55 percent.

Unemployment Concerns Lessen

Concerns about rising unemployment have lessened, reverting to the levels recorded one year earlier. Among all families in the March 1990 survey, 34 percent expected the national unemployment rate to increase during the year ahead, sharply down from the 44 percent recorded one month earlier and nearly equal to the 33 percent recorded one year earlier. Overall, the majority of families (55 percent) expected the unemployment rate to remain unchanged during the year ahead.

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The March 1990 survey included 503 completed interviews conducted between March 1 and March 26, 1990.